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# Developing Countries and the Uruguay Round

## Negotiations on Services

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Many developing countries are pursuing regulatory reform and liberalization. To what extent will signing the General Agreement on Trade in Services help governments trying to make their service sectors more efficient? Is the result of the defensive negotiating strategy that was pursued consistent with the shift toward a policy of liberalizing service markets?

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## Summary findings

In the late 1980s many developing countries experienced something of a paradigm shift: governments began to pursue more market-oriented domestic policies. There was an increasing perception that liberalizing access to service markets was a potentially low-cost, effective method for improving the quality and efficiency of domestic service sectors. These unilateral policy developments increased the incentives for developing countries as a group to participate in a multilateral agreement to liberalize trade in services.

Hoekman explores the extent to which the initial negotiating positions of developing countries are reflected in the draft General Agreement on Trade in Services (GATS) that has emerged from the Uruguay Round negotiations. He investigates whether the unilateral policy changes implemented by many developing countries in the late 1980s had a

discernible impact on the draft GATS for developing countries.

Many developing countries are pursuing regulatory reform and liberalization. To what extent will signing the GATS help governments trying to make their service sectors more efficient? Is the result of the defensive negotiating strategy that was pursued consistent with the shift toward a policy of liberalizing service markets?

This issue is of particular relevance insofar as recent liberalization-plus-privatization programs in developing countries were driven by external forces rather than domestic pressure (industry) groups — which might reduce the credibility of liberalization policies. Membership in a binding multilateral agreement could help bolster reform efforts by increasing the costs of “backsliding.”

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This paper — a product of the Finance and Private Sector Development Division, Europe and Central Asia, and Middle East and North Africa Regions Technical Department — draws in part on a report incorporated in a forthcoming United Nations/World Bank handbook, *Liberalizing International Transactions in Services*. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Laura O'Connor, room H8-090, extension 37009 (36 pages). November 1993.

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## **I. Introduction**

After more than five years of intensive discussions, a draft General Agreement on Trade in Services was included as part of the December 20, 1991 Draft Final Act of the Uruguay Round of multilateral trade negotiations (the so-called "Dunkel" text).<sup>1</sup> While the ultimate fate of the Uruguay round remains uncertain, it is unlikely that the text of the draft GATS will become a source of controversy in the end-game phase. There are ongoing negotiations regarding the initial commitments (i.e., offers) that are a critical part of the total package. The final phase of negotiations on initial commitments may give rise to disagreements and perhaps even lead to a breakdown of discussions, but this is unlikely to be the case for the Articles of the Agreement, sectoral annexes and other attachments. In itself, this is already a substantial achievement, given that a number of developing countries were opposed to including services on the agenda of the round. Having been unsuccessful in this regard, these countries initially pursued a defensive strategy during the negotiations. Thus, arguments were made that lack of data made it impossible to engage in substantive discussions, that market access concessions should be granted on a non-reciprocal basis, and that developing country governments should remain free to discriminate against foreign service suppliers.

In the late 1980s many developing countries experienced something of a paradigm shift, in that governments began to pursue more market oriented domestic policies. Factors underlying this shift included payments crises related to large external debt servicing obligations, the demonstration effect of the South-east Asian industrializing nations, the economic collapse of Eastern Europe and the former Soviet Union, and advice by the international financial institutions. Countries such as Argentina, Brazil, Egypt, India, Indonesia and Nigeria initiated programs to privatize state-owned enterprises and liberalize their foreign trade and investment

investment regimes.<sup>2</sup> While the intensity with which such programs were pursued varied across countries, the trend was in the same direction. As far as the service sector was concerned, there was increasingly a perception that inefficient service industries constituted a drag on the economy, and that liberalizing access to service markets was a potentially low cost and effective method of improving the quality and efficiency of domestic service sectors.

These unilateral policy developments increased the incentives for developing countries as a group to participate in a multilateral agreement to liberalize trade in services. Such an agreement would allow governments to "lock in" domestic policy changes, while at the same time obtaining "credit" for these changes in the form of increased opportunities to access foreign service markets.<sup>3</sup> The changes in domestic policy occurred in many of the countries that were initially strongly opposed to multilateral disciplines for services. Consequently, these developments enhanced the likelihood of negotiating a far-reaching multilateral agreement to liberalize trade in services.

An analysis of the draft GATS reveals that its scope is limited, however. In large part this reflects the preferences of OECD countries. But developing countries also continued to pursue a cautious negotiating stance throughout the post-1988 period. The unilateral policy changes noted earlier are reflected to only a limited extent in the outcome of negotiations. Indeed, the draft GATS can be characterized as consisting of a mix of elements drawn from the *initial* position papers presented by participants in 1987-88. While it is certainly the case that the influence of developing countries in multilateral trade negotiations is generally limited, the GATS negotiating history illustrates both the substantial inertia that characterizes negotiating positions in such efforts and that developing countries do have some influence in determining the final outcome.

The aim of this paper is twofold. First, to explore the extent to which initial negotiating

positions of developing countries are reflected in the draft final outcome and to discuss whether the unilateral policy changes implemented by many developing countries in the late 1980s had a discernable impact on their negotiating stances and on the framework agreement. Second, to discuss the potential relevance of the draft GATS for developing countries. Given that many developing countries are pursuing regulatory reform and liberalization efforts, to what extent will signing the GATS help governments seeking to enhance the efficiency of their service sectors? Is the result of the negotiating strategy that was pursued consistent with the pursuit of liberalization of service markets? This issue is of particular relevance insofar as recent liberalization-cum-privatization programs of developing countries were driven by external forces rather than domestic pressure (industry) groups (Birch and Braga, 1993). Given that this may reduce the credibility of such reforms, membership in a binding multilateral agreement could help to bolster reform efforts by increasing the costs of "backsliding."

The paper is organized as follows. Section II first discusses briefly the initial negotiating positions of the major developing countries, the United States and the EC.<sup>4</sup> It then goes on to explore the extent to which developing country negotiating stances shifted in the late 1980s. Section III summarizes the principal features and provisions of the agreement from the perspective of developing countries, while Section IV relates the outcome of discussions as embodied in the draft GATS to their negotiating positions. Section V turns to the initial specific liberalization commitments made by participants. These commitments will largely determine the immediate economic impact of the GATS on developing countries, and provide another indication of the extent to which unilateral policy developments are reflected at the multilateral level. Section VI turns to the general opportunities for developing countries embodied in the GATS, focusing on its rules and disciplines. The question posed is the extent to which the credibility of (ongoing) liberalization programs may be enhanced through participation in the

GATS. Section VII concludes.

## II. Synopsis of Negotiating Positions<sup>5</sup>

Before the 1986 Ministerial meeting at Punta del Este establishing the agenda of the Uruguay round, a group of ten developing countries defended the view that GATT negotiations should not address services.<sup>6</sup> While these countries did not manage to block the inclusion of services on the round's agenda, they did succeed in putting services on a separate track in an attempt to establish the principle that no cross-issue linkages be possible between traditional GATT issues and services. Moreover, at their insistence economic development and growth were agreed to be an objective of any agreement.<sup>7</sup> Many developing countries continued to express doubts about the value of a multilateral agreement liberalizing trade in services during the first year of discussions. Submissions by Argentina, Brazil and India to the Group of Negotiations on Services (GNS) in 1987 and the first half of 1988 are representative of the initial negotiating positions of the major developing countries.<sup>8</sup> The primary criterion for these countries was that any agreement further the goal of economic development and growth.<sup>9</sup> Argentina and India argued that this objective could be best met through market sharing arrangements, so as to ensure that developing countries increased their share of world trade in services. An Argentinean submission was also representative in emphasizing that developing countries remain unconstrained with respect to regulatory regimes pertaining to service industries, including possible export promotion schemes. Many developing countries emphasized that lack of statistical information made it impossible to determine how trade should be defined for purposes of an agreement. Data limitations were used as one justification for seeking to exclude service transactions involving establishment by foreign providers (foreign direct investment -- FDI).<sup>10</sup> Similarly, it was argued that agreement on a definition of trade in

services was required before substantive negotiations could commence regarding the sectoral coverage of the agreement. Great emphasis was put on the need for governments to be able to address restrictive business practices, impose conditions of inward FDI, and support infant industries. A consequence of this was that a generally applicable national treatment obligation was considered to be unacceptable.

The EC's initial negotiating position was that trade should be defined so as to include all types of transactions necessary in a sector in order to achieve "effective" market access. It sought a broad agreement both in terms of sectoral coverage and membership. A "regulations committee" was proposed that would determine the "appropriateness" of regulations, criteria to determine this to be negotiated. Inappropriate measures were to be subject to liberalization over time, the goal being to achieve "comparable" market access on a sector-by-sector basis for all participating countries. Any framework agreement was not to involve generally binding obligations. Instead, national treatment and other principles were to be objectives. The implication of this was that any binding commitments were to apply on a sector-specific level.

The United States' initial proposal centered on five elements: transparency, nondiscrimination, national treatment, market access and disciplines on state-sanctioned monopoly providers of services. MFN was to apply to all signatories to the agreement, but not to non-members. Transparency of regulations and procedures was also a component of other submissions, and was an uncontroversial concept. National treatment was considered to be a fundamental element of any agreement, and was to be a binding, general obligation. While the existence of national monopolies was accepted, the U.S. proposed that services sold by such entities be provided to foreign-based users on a nondiscriminatory basis. Trade was to be defined broadly, including FDI (commercial presence), as this was considered to be crucial to ensure market access. All measures limiting market access for foreign service providers were



to be put on the table. At the time (late 1987), many developing countries felt that the U.S. submission went beyond the mandate of the GNS (Cobban, 1988).

After two years of discussions, a mid-term review session was held in Montreal at ministerial level.<sup>11</sup> The resulting Montreal Ministerial Declaration emphasized the interests of developing countries with respect to services. Although it stated that work on definitions should include longer-term establishment as a covered mode of supply, developing country concerns were reflected in the possibility of imposing various criteria in this connection. In determining the sectoral coverage of the agreement sectors of export interest to developing countries were to be included. Progressive liberalization -- called for in the Punta del Este declaration -- was to take "due account of the level of development of signatories," and there should be "appropriate flexibility for individual developing countries for opening fewer sectors or liberalize fewer types of transactions ... in line with their development situation."<sup>12</sup>

Throughout 1989 and 1990 developing countries consistently defended the position that the language of the Montreal declaration be respected. The need for preferential access to industrialized country markets was emphasized, as was the option of limited reciprocity (i.e., the freedom of liberalizing fewer sectors). A February 1990 paper submitted by a number of Latin American states -- including Brazil, Chile and Mexico -- is representative. It identified a number of ways through which developing countries might be accorded preferential treatment in line with meeting the objective of economic development. These included the right to pursue policies to foster service exports, a general reservation of the right to grant subsidies to domestic service sectors, making market access concessions conditional on permission for developing countries to exempt export subsidies from a national treatment obligation, tolerating the formation of preferential trading arrangements among developing countries, financial aid for technical assistance relating to matters covered by a services agreement and to foster the

development of service sector infrastructure, and obligations on industrialized countries to bind and progressively reduce discrimination in government procurement practices.<sup>13</sup> It is noteworthy that much of this was eventually incorporated into the draft Final Act of the Uruguay Round.

The foregoing is not to say that negotiating positions remained unchanged between 1987-91. On issues such as definition and coverage, developing countries became more accommodating, accepting a broad definition of trade in services and putting much less emphasis on the lack of a detailed database on service statistics. Indeed, the initial breakthrough was the developing country acceptance that the definition of trade in services include the four possible modes through which international transactions in services may occur, at the price of acceptance of a positive list approach to determining the coverage of specific commitments (see below).<sup>14</sup> But the summary of the provisions of the GATS contained in the next section illustrates that developing countries continued to insist on the inclusion of the "acquired rights" pertaining to preferential treatment embodied in the Montreal Ministerial declaration.

### III. An Overview of the Draft GATS

The draft GATS contains two sets of obligations: (1) a set of *general* concepts, principles and rules that create obligations that apply to *all* measures affecting trade in services; and (2) *specific* negotiated obligations that constitute commitments that apply to those service sectors and subsectors that are listed in a member country's schedule, subject to sector-specific qualifications, conditions and limitations. The Agreement also contains a set of attachments that include annexes that take into account sectoral specificities and various institutional decisions and understandings.

The GATS applies to measures affecting trade in services, "services" being defined to

include any service in any sector except those supplied in the exercise of governmental functions.<sup>15</sup> Article I distinguishes four "modes of supply" to which the Agreement applies. These are the cross-border supply of a service (that is, not requiring the physical movement of supplier or consumer); provision implying movement of the consumer to the location of the supplier; services sold in the territory of a Party by (legal) entities that have established a presence there but originate in the territory of another Party; and provision of services requiring the *temporary* movement of *natural* persons (service suppliers or persons employed by a service supplier who is a national of a country that is a party to the agreement).

Article II on unconditional MFN is a core general obligation of the Agreement. MFN is defined as non-discrimination across foreign sources of supply, i.e., each service or service supplier from another party is treated no less favorably than any other foreign service or service supplier. It applies to all services. The extent to which existing measures that do not conform with MFN will be "multilateralized" depends on the extent to which countries seek exemptions. For a variety of reasons, it proved necessary to include an annex allowing signatories to exempt certain measures from the MFN obligation.<sup>16</sup> As the content of the lists of exemptions are still under review at the time of writing, it remains unclear to what extent the GATS will be undermined by MFN exemptions.

Other general obligations include the following: (1) *Transparency*: all relevant laws, regulations and administrative guidelines to be published, and enquiry points to be established within two years of the entry into force of the agreement.<sup>17</sup> Such enquiry points are to provide, upon request, specific information on any of the laws, regulations, etc. which pertain to the operation of the agreement. (2) *Economic integration*: GATS membership will not prevent parties from belonging to agreements to liberalize trade in services among or between themselves, providing certain conditions relating to sectoral coverage, new discriminatory

measures, etc. are met).<sup>18</sup> (3) *Recognition*: allows for harmonization or mutual recognition arrangements between members of the GATS of standards, qualifications, licenses, certification systems, etc. through negotiations or autonomous recognition. (4) *Domestic regulation*: recognition of a country's right to regulate, and provisions to ensure that standards and licensing requirements - so-called qualitative conditions on market access - do not constitute unnecessary barriers to trade or nullify specific commitments contained in the national schedules. (5) *Behavior of public monopolies*: such entities will be subject to the MFN obligation and prohibited from abusing their monopoly power. (6) *Behavior of private operators*: agreement to consult with a view to removing business practices that restrain competition, and a requirement to provide information on business practices. (7) *Emergency safeguards*: procedures to be negotiated within three years should such a provision be considered necessary. (8) *Freedom for transfers and payments for current transactions*: for those sectors where commitments have been undertaken, except if necessary to safeguard the balance of payments. (9) *Balance of payments safeguards*: may be taken subject to consultations.<sup>19</sup> (10) *Subsidies*: recognition that subsidies may have distortive effects on trade in services and that there will be future negotiations to develop the necessary multilateral disciplines. (11) *Exceptions*: analogous to GATT Article XX, allowance for measures to be maintained or taken to protect public health, morals and safety.

There are three articles in Part III of the GATS on Specific Commitments, entitled Market Access, National Treatment, and Additional Commitments (Articles XVI, XVII and XVIII respectively) that apply *only* to listed service sectors and subsectors.<sup>20</sup> Market access is not defined as an obligation. Instead, an "implicit" approach was followed: if a party lists a sector or subsector in its schedule, market access (in all four modes of delivery) is considered to be unrestricted except for those limitations and conditions (discriminatory *and* nondiscriminatory

measures) explicitly listed which pertain to specific modes of supply. National treatment for foreign services and service suppliers is defined as treatment no less favorable than that accorded to like domestic services and service suppliers. Such treatment may or may not be identical to that applying to domestic firms, in recognition of the fact that in some instances identical treatment may actually worsen the conditions of competition for foreign-based firms (e.g., a requirement for insurance firms that reserves be held locally). As is the case with the market access commitment, countries may list any conditions and qualifications to national treatment in their schedules.

There are currently five annexes to the framework. These comprise the annex on Article II (MFN) exemptions mentioned earlier, sectoral annexes for financial services, telecommunications, and air transport, and an annex dealing with the movement of natural persons providing services covered by the framework. The annex of primary concern to developing countries deals with the movement of natural persons, as many developing countries are perceived to have a comparative advantage in labor intensive products, and many services are labor intensive (Bhagwati, 1987). The annex specifies that natural persons who are either service suppliers themselves, or employed by a service supplier originating in a country that is a party to the GATS shall be allowed to provide services in accordance with the terms of specific commitments relating to entry and temporary stay of such persons. As with national treatment/market access, the extent to which labor movement is allowed is completely dependent on what is specified in the national schedules. Specific restrictions on labor movement may be horizontal in nature (e.g., a domestic means test for all incoming labor) or sector-specific. The annex emphasizes that the GATS does not apply to measures affecting natural persons seeking access to the employment market of a country, or to measures regarding citizenship, residence, or employment on a permanent basis.

*Provisions pertaining to developing countries*

The GATS contains no provisions similar to Part IV of the GATT on more favorable treatment of developing countries (special and differential treatment), or to the (unilateral) arrangements for tariff preferences that exist for merchandise trade flows (e.g., the Generalized System of Preferences). Instead, all provisions relating to economic development are considered to be an integral element of the agreement. The Preamble of the GATS repeats the Punta del Este declaration. While it creates no legally binding obligations, it states that the general goal of member countries is "to establish a multilateral framework of principles and rules for trade in services with a view to expand such trade under conditions of transparency and progressive liberalization, and as a means of promoting the economic growth of all trading partners and the development of developing countries." Moreover, a desire is expressed that the agreement facilitate "the increasing participation of developing countries in international trade in services and the expansion of their service exports including, inter alia, through the strengthening of domestic service capacities and its efficiency and competitiveness." The Preamble explicitly recognizes the right of all parties to regulate the supply of services within their territories, and the particular need of developing countries to exercise this right with a view to meeting national policy objectives. Finally, the Preamble states that "particular account of the serious difficulty of the least developed countries" is to be taken.

The major exception to the general absence of special and differential treatment for developing countries is Article XIX foreseeing in developing countries offering fewer specific commitments than industrialized nations. Although they are to have some flexibility to offer less than industrialized nations, they will not be allowed to "free ride," as this is not a right (or obligation), but is negotiable. Thus, many industrialized countries have made clear that no developing country (including least developed countries) can become a party to the GATS

without having made satisfactory initial commitments. Commitments that are perceived as unsatisfactory by a party to the agreement can lead to the invocation of a nonapplication provision, under which a party can refuse to apply the provisions of the GATS to a country that accedes to it.

There are only two provisions that deal exclusively with developing countries. Article IV entitled "Increasing Participation of Developing Countries" states that the goal of increasing the participation of developing countries in world trade i services shall be facilitated through *negotiated*<sup>21</sup> specific commitments relating to: (1) access to technology on a *commercial* basis; (2) the improvement of access to distribution channels and information networks; and (3) the liberalization of market access in sectors of export interest to them. Article IV does not exempt developing countries from any of the obligations of the Agreement. Article XXVI on technical cooperation states that service suppliers needing assistance are to have access to the contact points required by Article IV and that technical assistance to developing countries shall be provided at the multilateral level by the competent secretariat and shall be decided upon by all signatories acting jointly. Thus, such assistance need not be provided solely by the secretariat of the GATS, but can involve any multilateral organization deemed to be competent.<sup>22</sup>

Other Articles mentioning the level of economic development of parties or referring to developing countries include Articles III (transparency), V (economic integration), XII (measures to safeguard the balance of payments), XV (subsidies), and XIX (negotiation of commitments). As far as transparency is concerned, developed parties are to establish contact points within two years of the entry into force of the agreement to facilitate the access of developing country service suppliers to information relating to (1) the commercial and technical aspects of specific services; (2) requirements for registration, recognition, and obtaining of professional qualifications; and (3) the availability of services technology. This provision goes beyond the

requirement to establish enquiry points contained in Article III (on transparency), as those simply relate to laws, regulations, decisions, etc. that affect the supply of services. The contact points for developing countries also cover technical matters.

Article V on economic integration allows parties to the GATS to enter into preferential trade liberalizing agreements. Such agreements are subject to certain conditions, the major ones being that they have substantial sectoral coverage, provide for national treatment for the sectors involved, and do not result in higher external barriers for services and service suppliers originating in non-member states. Where developing countries are parties to such agreements, the draft agreement states that "flexibility shall be provided for regarding the conditions in accordance with the level of development of the countries concerned, both overall and in individual sectors and subsectors."

Article XV on subsidies remains to be negotiated. It simply recognizes that subsidies may have distortive effects on trade in services and states that parties shall enter into negotiations with a view to developing the appropriate multilateral disciplines to avoid such trade distortive effects. However, it is stated that such negotiations are to recognize the role of subsidies in development programmes of developing countries and take into account the needs of parties, especially developing countries, for flexibility in this area. It can be argued that as far as scheduled sectors are concerned, Article XVII (National Treatment) will already impose some subsidy discipline as those subsidies that violate national treatment will have to be listed. It may well be, therefore, that a subsidies article will never emerge.

Article XIX states that to achieve the objectives of the Agreement, the process of progressive liberalization through the future negotiation of commitments shall allow for "appropriate flexibility for individual developing countries for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their development



situation and, when making access to their markets available to foreign service suppliers, attaching to it conditions aimed at achieving the objectives" of increasing the participation of developing countries in world trade. These are in fact guidelines for the conduct of future trade liberalizing rounds rather than "obligations" to be undertaken. Again, specific consideration should be given to the economic condition of least developed countries, as required by Article IV (see above).

The only sectoral annex to make a reference to the situation of developing countries relates to telecommunications. This annex requires developed countries to abstain from imposing conditions on the access to and use of public telecommunications transport networks and services unless necessary to ensure the availability of services to the general public, protect the technical integrity of networks or prevent the supply of services by parties that have not made specific commitments in the area of telecommunications. However, developing countries may impose reasonable conditions of the access to, and use of, telecommunication networks necessary to strengthen domestic telecommunications infrastructure/capacity and to increase their participation in international trade in telecommunications services.<sup>23</sup>

#### **IV. Developing Country Influences on the Structure of the Draft GATS**

As noted above, early in the negotiations both the EC and major developing countries expressed a preference for an agreement with "soft" obligations -- the EC arguing that national treatment should only apply to specific sectors, major developing countries opposing even that. Only the U.S. and certain small open economies -- both OECD members and newly industrialized countries like Singapore -- were in favor of a "hard" agreement along GATT lines from the start, with generally binding obligations and universal sectoral coverage. Although the various articles of the GATS dealing with recognition of licenses, transparency of regulatory

regimes, monopolies, economic integration and so forth are important, it may not be too much of an exaggeration to say that at the end of the day the original EC/developing country preference for a "soft" framework agreement prevailed. The draft GATS only has one generally binding obligation -- MFN -- and it allows countries to continue to maintain measures that violate MFN if these are listed under auspices of the Annex on MFN exemptions.<sup>24</sup> Other obligations pertaining to national treatment and market access apply only to scheduled sectors, and then only to the extent that countries do not list measures in their sectoral lists that violate these obligations.

While the non-generality of national treatment and market access obligations reflects the preferences initially expressed by the EC, the positive list approach to the sectoral coverage of the specific commitments was the result of developing country opposition to a negative list.<sup>25</sup> In part this reflected a fear that the latter would have imposed too great an administrative burden. A negative list approach -- i.e., generally binding obligations for all sectors with the exception only of listed services -- requires all sectors for which exemptions will be sought to be scheduled.<sup>26</sup> The developing country preference for a positive list approach does not necessarily reflect a desire to limit the scope of liberalization commitments, as the value of such commitments can be the same under either approach.<sup>27</sup> It is nonetheless one dimension where developing countries had an impact on the architecture of the GATS. More fundamental as far as developing countries are concerned is the inclusion of Article XIX which allows developing countries to offer fewer specific commitments. The language of Article XIX comes straight from the Montreal declaration, which in turn was the result of the initial negotiating stances taken by the major developing countries.

The draft GATS can be characterized as an elaboration of various elements that were already contained in initial submissions by participants to the GNS. The fundamental

architectural aspects of the draft GATS reflect the preferences of the major industrialized players. Thus, the approach taken towards national treatment is consistent with the original desire of the EC not to have general binding obligations. However, the EC accepted that MFN be a generally binding obligation, as this was considered to be crucial by most other industrialized countries. Although the U.S. consistently defended the need to have a MFN obligation, its position on this issue was ambivalent in practice. Thus, the U.S. was largely behind the inclusion of the annex allowing members to invoke exceptions to MFN.<sup>28</sup> The changes in the economic policy stance of many developing countries in the late 1980s apparently had little impact on the design and contents of the draft GATS. Its main effect was that major countries abstained from the defensive, foot dragging strategy employed in the first years of substantive negotiations. A priori one expects that even large developing countries may be able to have only a marginal impact at best in influencing the substantive provisions of a multilateral trade agreement. While this certainly appears to be the case with respect to the major substantive provisions of the draft GATS, specific "developing country" language was defended by developing countries with some success. Examples include Article XIX, the fact that no disciplines were negotiated in the area of subsidies (including export subsidies, an important concern of developing countries in the early stages of discussions), and the inclusion of a balance of payments safeguard clause.

The rules and principles of the draft GATS constitute one dimension along which developing country influence can be measured. However, the predominance of industrialized countries makes it difficult to discern precisely what impact developing countries negotiating positions had over the course of negotiations in the GNS. Another indicator of the extent to which unilateral policy changes were reflected in the GATS is to investigate the sectoral coverage of the initial offers made by developing countries. It is one thing to include options

such as Article XIX, but what matters at the end of the day is the extent to which they are exploited. This is the subject of the next section.

## V. Initial Commitments (Sectoral Offers) of Developing Countries

At the time of writing, countries are still in the process of negotiating their specific commitments. Recognizing that final offers might be substantially expanded as the result of further negotiations, there is nonetheless value in undertaking an analysis of the *initial* offers that have been made by participants. They provide an indication of the willingness of developing countries to provide significant national treatment/market access commitments, and also the extent to which such countries are willing to bind unilateral reforms at the multilateral level. As of early 1992, 28 developing countries had presented an initial offer. In the subsequent year an additional 12 countries submitted initial commitments, bringing the total to 40. All large developing countries including Argentina, Brazil, China, India, Indonesia, Korea, Mexico, and Nigeria have presented an offer.<sup>29</sup>

A number of summary indicators can be constructed to compare country offers. The most straightforward is to simply count the number of subsectors mentioned in an initial offer and express this as a share of the total number of subsectors in the GATS indicative list of service activities. This list distinguishes 11 major service categories and 154 sub-sectors.<sup>30</sup>

The initial offers of developing countries as of the end of 1992 had "coverage ratios" ranging from 1 to 50 percent, the average being 18.5 percent. There was substantial geographic variance in the offers. Whereas Latin American countries on average had ratios of 20 per cent, Asian country offers averaged 22 per cent, and the offers of African countries represented only 11 per cent of all sub-sectors. Large developing countries as a group -- defined as those with a service sector representing over \$100 billion in GDP in 1990 -- had above average coverage ratios of

25 per cent.<sup>31</sup> Ten developing countries offered more than 30 per cent of the sub-sectors identified in the GNS classification list.

Coverage ratios of this kind are of course extremely crude indicators of the relative magnitude of country offers. They do not take into account the restrictions on national treatment and market access that continue to be maintained, or the relative size of countries. Moreover, they give each subsector equal weight, something that is clearly inappropriate.<sup>32</sup> It should also be noted that many countries' initial commitments are subject to so-called headnotes that maintain regulations that apply across a number of sub-sectors or modes of supply, and may also contain qualifications with respect to the re-drafting of relevant legislation. Finally, the coverage ratios are somewhat biased. A number of countries have offered services that are not mentioned explicitly in the GNS list of service sectors. These are classified under one of the catchall subcategories "other." In those cases where countries mention more than one subsector under a heading of "other" only one is counted in the procedure that is used here. While the impact of this source of bias is rather minor, this is certainly not the case for the other problems mentioned.

It is very difficult to take into account the relative openness - or change in openness - implied by developing country offers on a sector-by-sector basis. One attempt has been in OECD (1993), which takes into account the proportion of total commitments where the offer implies unrestricted access. For all developing countries that have made offers, about 50 per cent are associated with unrestricted market access. However, even in such cases national laws and regulations remain applicable, and the economic impact of regulatory regimes will differ across countries. Correcting for sector and country size is more straightforward in principle, as offers can be weighted by the share of each sector in a country's total services output, and by the share of a country's service sector output in the total of all countries in the sample.

Unfortunately no detailed data are reported by individual countries that allow this to be done in practice. What can be done is to concord country offers to a more aggregated list, and to use data on sectoral shares for a set of OECD countries reporting the required statistics as a set of weights. When offers are adjusted in this way,<sup>33</sup> the average weighted coverage ratio across developing countries increases slightly to 21 percent. If the magnitude of the service sector of each country in the sample is also taken into account, the weighted average coverage ratio across all countries jumps to 31 percent.<sup>34</sup> This reflects the fact that large developing countries have offered more than the smaller ones on average.

These summary measures, while undoubtedly very crude, reveal that the sectoral coverage of the initial offers of developing countries is not insignificant. Even though many developing countries had not made initial offers as of the end of 1992, the countries that did include the largest economies. Indeed, the countries that have made offers represent over two-thirds of the total service sector output of all developing countries (excluding East-European countries and the republics of the former USSR).<sup>35</sup> It cannot be concluded from the fact that only a limited number of developing countries made initial offers that developing country interest in liberalizing access to service markets is limited. Many smaller developing - and especially least developed - countries have a rather limited "negotiating capacity," in that the relative costs of participation in the Geneva-based GNS process are simply too high. For example, many do not have permanent representatives at the GATT who could take part in the service negotiations;<sup>36</sup> or to the extent that they do, they may decide that their limited resources are better utilized in fora that appear to be of greater direct export interest to them than services (e.g., tropical and natural resource-based products, textiles, etc.).

Although in comparison to their traditional stance in GATT negotiations the participation of developing countries in the services talks was substantial, it is unclear why the offers are not

more comprehensive. As noted earlier, the data on sectoral coverage provides little information on the extent of liberalization or degree of openness of the regulatory regime affecting the sectors concerned. In many instances offers consist of binding the status quo for the sectors involved. Although this is of some value, especially for those countries that have liberalized unilaterally, it is clearly only the first step towards progressive liberalization. As such, the "cost" of offering a majority of service activities in the GATS context would appear to be modest, even for those countries that do not favor liberalization, as measures may be retained that violate the national treatment or market access obligations as long as they are scheduled. This argument applies a fortiori for those countries that do desire to liberalize access to their service markets. As far as the latter are concerned it may well be that markets are relatively open, but that countries do not desire to bind this situation in the GATS context. Reasons for this could include dissatisfaction with the offers of trading partners, or a desire to maintain some negotiating leverage in both the current and in future negotiations.

Limiting the extent of liberalization offers so as to induce trading partners to liberalize in turn, or liberalize more, is in general not likely to be effective. Even if the strategy turns out to be successful, it is likely to take a substantial amount time (witness the length of the Uruguay Round), thereby foregoing the benefits of liberalization during this period. Most countries are simply too small to be able to influence the behavior of the large traders.<sup>37</sup> Nonliberalization by trading partners reduces the potential gains from liberalization, but by no means eliminates them. This is especially true in the services context, as most service production - be it by domestic or foreign firms - occurs locally, employing domestic factors of production. Most of the potential gains to be had from liberalization will be the result of liberalizing access to domestic markets. Greater access to foreign markets will frequently constitute the "icing on the cake," not the cake itself.<sup>38</sup>

Notwithstanding these normative considerations, the possibility remains that limited offers on the part of developing countries can be explained by limited offers on the part of industrialized countries. As of early 1993 all OECD members had presented an initial offer. Those of the two major participants in the negotiations, the EC and the U.S.,<sup>39</sup> cover about two-thirds and one-half of the GNS list of sectors, respectively. The average unweighted coverage ratio of initial offers of industrialized countries exceeds 75 percent.<sup>40</sup> Given the wide coverage of the offers, there is less interest in calculating weighted coverage ratios than for the offers of developing countries. The main issue for developing countries is what measures are retained for scheduled services in which they have a comparative advantage.

Existing balance-of-payments data show that many developing countries have a revealed comparative advantage in services (Hoekman and Karsenty, 1992).<sup>41</sup> Unfortunately, the high level of aggregation of the data makes it impossible to determine which sectors are of greatest export interest - actual or potential - for developing countries. Abstracting from tourism, there is a general belief that developing countries have a comparative advantage in labor intensive products, and that market access for labor intensive services therefore should be of greatest interest. These include professional services such as legal, accounting, engineering, consulting, medical and quasi-medical services as well as activities such as data processing, software development or cleaning services. Many of these business services are included in the offers of major industrialized countries. Thus, in this respect it appears that developing countries may have gained a significant increase in their export potential. Even though few countries have included personal services such as domestic help in initial offers - and are unlikely to do so - the list of business services includes many in which developing countries should be competitive. Even if it should turn out that final offers do not go much beyond the status quo regarding visa and licensing requirements, implementation of the contact/enquiry point mechanisms should



enhance export opportunities. More importantly, the fact that countries are to apply remaining restrictions on national treatment and market access on an MFN basis should result in a significant amelioration of market access conditions, given that service suppliers from developing countries may face discriminatory treatment at present.

Indeed, the potential benefits of MFN in terms of increasing market access should not be lost from sight. For example, it seems likely that certain existing bi- or minilateral trade, investment and related arrangements may be multilateralized. Possible examples are the two OECD codes on liberalization of current invisible operations transactions and capital movements, respectively, the UNCTAD Liner Code, and existing bilateral commercial treaties that affect trade in services. examples including bilateral investment treaties and bilateral "Friendship, Commerce, and Navigation" treaties. The latter frequently embody reciprocal national treatment obligations, which would presumably be extended to all parties to the agreement unless specifically exempted from the MFN requirement. Similarly, to the extent that OECD countries schedule service sectors/activities covered by the two codes, and do not exempt this horizontal measure from MFN, they will accord non-OECD members that are party to GATS with the same treatment that is accorded to OECD members.<sup>42</sup>

## **VI. General Opportunities for Developing Countries**

Participation in the GATS presents developing countries with an opportunity to increase the economic efficiency of their service sectors through greater access to lower cost/higher quality service inputs and increased export opportunities. In practice, export and import opportunities are strongly interdependent; greater access to higher quality and/or cheaper service inputs frequently being a necessary condition for a more efficient (competitive) domestic production capacity and thus greater exports of services *and* goods. Opportunities in both areas

will be a function of the general obligations contained in the GATS and the specific commitments undertaken by parties to the agreement to provide market access and national treatment to foreign suppliers.

There is substantial evidence that many of the constraints that reduce the economic efficiency of service industries of developing countries are "home grown," in that governments have not always pursued the appropriate policies.<sup>43</sup> Thus, policy measures should focus on augmenting domestic productive capacity, increasing quality, establishing a reputation for reliable supply, etc. This is the crucial need from a development perspective, as it is a necessary condition for exports to increase, be it the goods which use the services as intermediate inputs, or the services themselves. In the longer-run, greater exports are in turn a necessary condition for greater imports. Services are often intermediate inputs into the production of goods, so that the availability of higher quality and/or lower cost services will increase the output of goods and make them more competitive on world markets.

Although many policies can and should be changed/implemented unilaterally, external barriers to both imports and exports may reduce the payoff from doing so. External barriers to imports include access to information systems or telecommunication networks. For example, efficient provision of travel services may require agents to have access to the major computer reservation systems that cover various parts of the world. If so, the agent needs to be able to import such services at the lowest possible cost. As international telecommunications are subject to two sets of regulators, foreign regulations and procedures (relating to interconnection, pricing, etc.) may reduce the effective availability of (access to) such services. Ideally, external barriers to trade should be reduced in a reciprocal fashion, and this is of course the main incentive for engaging in reciprocal liberalization discussions.

Participation in a multilateral agreement imposing certain disciplines and constraints on

national policy formation may help a government in pursuing or implementing desired changes in domestic policies. Indeed, this may well be the primary benefit for a country of participating in or seeking to join an international agreement such as the GATS. Membership may increase both the credibility of initial reform and help governments resist demands from politically influential interest groups for altering policies in the future. This may be the case in particular for recent regulatory reform efforts undertaken by a number of Latin American countries. As noted by Birch and Braga (1993), these have tended to be driven by external factors -- e.g., external debt -- rather than domestic interest groups (industry and/or consumers). The credibility of reform that is not based on solid domestic support may be limited. To what extent does the GATS help governments desiring to foster economic efficiency by liberalizing access to service markets?

While economic efficiency may require regulation of some kind, this should not include restrictions on market access for foreign suppliers. A necessary condition for increasing the efficiency of services (*and* goods) production is greater competition (or the threat thereof). If for whatever reason a government desires to support domestic industries, the preferred approach is to subsidize such industries, not restrict access for foreign suppliers. If this is not politically feasible, price-based, nondiscriminatory restrictions on market access are preferable to quantity-based limitations. The GATS does not inhibit the implementation of more efficient policies, and in a number of ways will help governments seeking to adopt such policies and liberalize access to their service markets. The basic principles that underlie the GATS revolve around nondiscrimination, which is a necessary (but not sufficient) condition for policies to be efficient. Although no general ban on the use of quantitative restrictions is embodied in the GATS (unlike the GATT), the market access article lists a number of measures that are in principle not to be maintained by parties to the agreement. Most of these are quantity-type restrictions. Moreover,

although the GATS recognizes the possible distortive effects of subsidies on trade in services, and states that parties are to enter into negotiations with a view to developing the necessary multilateral disciplines, it is recognized that the option to use subsidies may be important for developing countries and that any disciplines to be developed take into account the need for flexibility in this area.<sup>44</sup>

Membership of the GATS may help governments pursue liberalization efforts because such liberalization occurs in a multilateral context. As domestic markets are liberalized, so are the markets of (potential) trading partners. This quid pro quo may help offset opposition by politically powerful forces against domestic liberalization. A well-known rationale for the pursuit of multilateral liberalization efforts is that the increased access to foreign markets is likely to be of interest to domestic export-oriented industries, and that these can be expected to oppose lobbying by import-competing industries to prevent the opening of domestic markets, as the less liberalization that occurs at home, the fewer access opportunities will be offered by trading partners (Baldwin, 1987). In the services-context the political economy of liberalization is likely to be more complex than in the case of trade in goods. Reasons include the fact that multiple modes of supply are under discussion, regulatory bodies may have a vested interest in limiting the extent of liberalization, and industries that are part of international sectoral arrangements may have an interest in maintaining the status quo.<sup>45</sup> Nonetheless, the general point that multilateral liberalization may facilitate the abolition of policies restricting market access is as valid in the context of services as in the context of merchandise trade.

The draft GATS also imposes costs on "backsliding," reflected in Article XXI on Modification of Schedules. This provision allows parties to withdraw concessions subject to negotiation with -- and compensation of -- affected parties. In the event bilateral negotiations result in inadequate offers of compensation for affected parties, the GATS foresees in arbitration.

If the party withdrawing a concession does not comply with the suggestions of the arbitration panel retaliation may be authorized. The existence of Article YXI will help governments to oppose attempts by domestic industries and other interest groups desiring to restrict market access at some point after liberalization has occurred. Of course, it should be remembered in this connection that the article on emergency safeguard measures remains to be negotiated. Once this is done - assuming parties conclude that such an article is necessary - a party will be able to *temporarily* withdraw concessions so as to safeguard a domestic industry. The existence of such a procedure is generally argued to facilitate liberalization, as it offers domestic industries some "insurance." If the impact of liberalization is such as to cause excessive injury to an industry - however defined - such industries may be given temporary assistance.<sup>46</sup>

In the services context liberalization does not - and often should not - imply the abolition of regulation. For example, even if a government decides to give foreign service suppliers access to the domestic market, such suppliers will be required to meet domestic quality standards. If qualifications, licenses, certificates, etc. issued by foreign countries are not recognized, or if such recognition procedures are cumbersome and administratively complex, liberalization per se may not have much of an impact. The GATS procedures for recognition (Article VII) should help governments to cooperate with respect to recognition of such standards. Finally, as discussed earlier, the GATS provides for technical assistance for developing countries that desire to liberalize access to their markets.

Notwithstanding the fact that the GATS will help countries to implement domestic liberalization efforts, it should be noted that it imposes few limitations on national policy, leaving a contracting party pretty much free to do as it likes in the policy domain, subject to the constraint that no discrimination across alternative sources of supply occurs.<sup>47</sup> It allows parties to implement policies that are detrimental to -- or inconsistent with -- economic efficiency. A

good example is the article specifying the conditions under which measures to safeguard the balance-of-payments may be taken, such measures rarely being efficient. It can also be noted that the GATS does not require a participating country to alter the regulatory structure of certain service sectors, or to pursue an active antitrust or competition policy. However, the recent experience of OECD countries indicates that liberalization of trade and investment may need to be augmented by regulatory change (frequently deregulation) and an effective competition policy in order to increase the efficiency of service sectors such as finance, transportation, and telecommunications. As noted by Cho (1987) among others, if liberalization is simply equated with increased market access for (certain) foreign suppliers, this may have little effect in markets that are characterized by a lack of competition. The main result will then simply be to redistribute rents across firms.

Returning to the question posed at the beginning of this section, membership of the GATS should help governments seeking to liberalize their service sectors. It may help augment the credibility of unilateral regulatory reform efforts, and offers an opportunity to go further than might be possible unilaterally as a result of the reciprocal nature of multilateral liberalization. But because of the various opt out and preferential treatment clauses, it is especially important for developing countries to maximize the sectoral coverage of their specific commitments.

## **VII. Conclusions**

Many developing countries have both been active participants in the Uruguay round negotiations on services and have engaged in unilateral efforts to reform their regulatory regimes pertaining to services and liberalize access to service markets. Domestic policy developments in major developing countries have led these countries to offer a substantial number of specific liberalization commitments in the Uruguay round services talks. The contrast with developing

country participation in the GATT in this respect is striking, as many countries have still to bind their tariffs. However, the draft GATS contains provisions allowing developing countries to liberalize less than industrialized countries. The economic rationale for such provisions is weak, to say the least. Such provisions reflect the traditional stance of developing countries in multilateral trade negotiations, and do not appear to be consistent with current policy trends and objectives pursued by many governments in the recent past. It is likely that inertia is one factor explaining the inclusion of such provisions, as the major developing countries fought hard to obtain them in the early stages of the negotiations.

The developing country provisions -- especially Article XIX permitting such countries to offer fewer sectors -- are options or guidelines, not requirements or obligations. Governments that are in the process of unilateral reform or seek to liberalize access to their service markets are of course free to schedule their whole service sector when acceding to the GATS. However, very few developing countries have offered to schedule even 50 per cent of their services sub-sectors. The cost of doing so is quite limited given the structure of the draft GATS, which allows a member country to continue to maintain whatever measures it wants for covered sectors as long as these are scheduled. Again, part of the explanation may be inertia, in conjunction with many smaller developing and least developed countries not devoting sufficient resources to the issue of determining the appropriate regulatory regime for their service sectors. The mercantilistic, reciprocal nature of the bargaining process is likely to be another factor underlying the limited specific commitments made by most developing countries. The draft GATS is based on the premise the liberalization is to be progressive. Over time the coverage of the specific commitments will increase as the result of recurring reciprocal rounds of bargaining. The incremental nature of liberalization foreseen in the draft GATS is not a compelling rationale for developing countries to limit the sectoral coverage of their specific

commitments. This is the case in particular for those countries that seek to enhance the credibility of ongoing or planned services-related regulatory reform efforts.



## Notes

1. The text of the draft GATS is contained in GATT (1991). It is reprinted in Sauvant and Weber (1992).
2. See Alam and Rajapatirana (1993), United Nations and World Bank (1993), Birch and Braga (1993), and GATT (1992) for discussions and documentation of recent policy changes in developing countries.
3. And goods markets as well to the extent that cross-issue tradeoffs could be negotiated.
4. As the focus of this paper is on developing countries, only the positions of the two major industrialized traders are discussed. These dominated in any event.
5. This section is deliberately brief, as other sources discuss the evolution of negotiating positions. Bhagwati (1987), Koekkoek and de Leeuw (1987), Feketekuty (1988), Helleiner (1988), and Cobban (1988) focus on the 1986-87 period. Sources for the 1988-91 period include Marconini (1990), Hindley (1990), Drake and Nicolaidis (1992), and Stewart (1991).
6. The so-called G-10 included most of the large and more influential developing countries, including Argentina, Brazil, Egypt, India, Nigeria, and Yugoslavia.
7. The Punta del Este Ministerial Declaration launching the Uruguay round stated that negotiations on trade in services were to establish a multilateral framework of principles and rules for trade in services, "with a view to expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting economic growth of all trading partners and the development of developing countries." The complete text of the declaration can be found in Annex 1 of Messerlin and Sauvant (1990).
8. The following discussion on initial negotiating positions draws on Hoekman (1988) which includes the citations to all references to submissions to the Group of Negotiations on Services. These were obtained from trade officials on a December 1987 visit to Geneva, and were supplemented by interviews.
9. Both India and Brazil argued in early submissions to the GNS that special and differential treatment for developing countries along GATT lines should not be necessary under a GATS because the goal of any acceptable agreement should be to foster economic development and growth.
10. In this developing countries were supported by the UNCTAD secretariat, which proposed that trade in services be defined to occur only when the majority of value added is produced by nonresidents (UNCTAD, 1985). This definition excludes virtually all transactions through FDI, as foreign factors of production that move are generally considered to become residents of the host country for statistical purposes.
11. See Marconini (1990) and Drake and Nicolaidis (1992) for more detailed description of the negotiating process.
12. The text of the declaration is reproduced in Annex 2 of Messerlin and Sauvant (1990).
13. Stewart (1991), citing the original submission to the GNS.
14. The intellectual underpinnings of this are to be found in the seminal paper by Sampson and Snape (1985).
15. Services bought by governments (i.e., procurement) are also excluded for the time being from the MFN obligation and the negotiated specific commitments, but may be covered to the extent that additional commitments can be negotiated (see below). Negotiations on services procurement are to occur within two years of entry into force of the GATS. It should also be noted that there are ongoing multilateral negotiations on government procurement of services in the context of the GATT Government Procurement Code. However, this code currently has only a limited membership. For a summary discussion of the code see Hoekman and Stern (1993).

16. See Hoekman (1992) for a discussion. The annex specifies the procedures under which such exemptions may be sought. It states that exemptions be time limited (in principle lasting not longer than ten years) and are subject to periodic review. If it is sought to extend them beyond ten years, they are subject to negotiation in subsequent trade liberalizing rounds.

17. However, certain transparency-related obligations apply only when specific commitments have been undertaken.

18. Note that the GATS makes a provision for economic integration, whereas the GATT only makes provision for customs unions and free trade areas. This is a reflection of the wider scope of the GATS in terms of its definition of coverage.

19. Although the article on balance of payments measures states that such actions are to be nondiscriminatory, parties taking such action are permitted to give priority to certain sectors that are deemed more essential to their economic or development programs.

20. Thus, when the countries have agreed to undertake specific commitments they are then listed in the schedules – along with whatever limitations, conditions and qualifications a country desires to make. The Article entitled Additional Commitments allows for commitments to be negotiated on measures that go beyond the purview of the agreement, relating for example to government procurement or to qualifications, standards and licensing matters.

21. This is a key element because it creates a legal obligation on the part of developed countries.

22. Examples include UNCTAD, UNDP, UNCTC, the World Bank and sectoral agencies such as the International Telecommunications Union, the International Civil Aviation Organization, and the International Maritime Organization. Such organizations already maintain technical cooperation programmes.

23. The telecommunications annex also contains a relatively lengthy article on technical cooperation. It encourages the participation of telecommunications suppliers in the development programmes of international and regional organizations, such as the World Bank and UNDP, and requires parties to the agreement to encourage and support telecommunications cooperation among developing countries at the international, regional and sub-regional levels. Moreover, where practicable and in cooperation with relevant international organizations, members of the GATS are to make available to developing countries information on international telecommunications services and developments in telecommunications and information technology in order to assist in the strengthening of their domestic telecommunications sectors.

24. Albeit at a price, as such exemptions have to be "paid" for and are subject to negotiation.

25. A negative list approach to coverage was proposed by the U.S. in late 1989, and was supported by the EC (Stewart, 1991, p. 44). As noted earlier, it appears that one element of the deal that was made in obtaining agreement from developing countries to accept a broad definition of trade in services for purposes of the GATS was the adoption of a positive list approach to coverage of the specific commitments.

26. The Annex allowing for MFN exemptions is an example of a negative list approach to determining the coverage of the MFN obligation.

27. However, Snape (1990) notes that a negative list approach will be somewhat more liberal in a dynamic sense, as new services will be covered automatically.

28. This reflected concerns on the part of the telecommunications industry in particular, which was defended the view that a MFN obligation would lock in the relatively open U.S. market and make it impossible to use unilateral instruments such as Section 301 as a lever to open foreign markets.

29. The major exception is Taiwan. The following developing countries had made an initial offer as of end 1992 (in chronological order): Hong Kong, Republic of Korea, Indonesia, Singapore, Colombia, Mexico, Turkey, Chile, Brazil, Yugoslavia, Malaysia, Venezuela, China, Argentina, Costa Rica, Uruguay, Peru, Philippines, Thailand, Egypt, Morocco, El Salvador, Guatemala, Honduras, Nicaragua, Cuba, India, Bolivia, Sri Lanka, Jamaica, Nigeria, Senegal, Paraguay, Cote d'Ivoire, Israel, Cameroon, Zimbabwe, Ghana, Tunisia, and Trinidad and Tobago. In March 1993 the Netherlands presented offers on behalf of Aruba and the Netherlands Antilles. The following quantitative analysis of the initial offers excludes that of Yugoslavia for obvious reasons. Confidentiality constraints prevent a discussion of individual country offers and their sectoral coverage.

30. The major categories are business services (including professional and computer-related services), communication services (including postal, telecom and audiovisual services), construction, distribution services, education, environmental services, financial services, health and related services, tourism, recreation, and transportation. United Nations and World Bank (1993) reproduce the GATS classification list.

31. This group includes Brazil, China, India, the Republic of Korea, and Mexico.

32. If an adjustment is made for sector size, the magnitude of the coverage ratios will change, leading to an increase for countries that offer relatively few sectors of significant size, and a decrease for countries that offer many sectors most of which are relatively insignificant.

33. See United Nations and World Bank (1993) for a list of the weights used. These are based on data obtained for Canada, France and the United States. The more aggregated list has 125 service sub-sectors. Note that using data from industrialized countries on sectoral shares is likely to bias these weighted coverage ratios, unless all sectors are covered. The reason is that relative shares will on average tend to differ from those of industrialized countries. Thus, transportation and distribution tends to be relatively more important for developing countries, and business and financial services less important.

34. World Bank, World Development Report 1990 GDP data broken down by sector were used for the country-specific service sector weights.

35. As all developing countries together account for some 15 percent of the global output of services (excluding Eastern European countries and the republics of the former USSR), this represents at most ten percent of the global market (at most because this does not take into account any restrictions that are maintained with respect to the sectors involved). However, it can be argued that developing country markets are likely to expand faster than those of industrialized nations.

36. Indeed, the only representative many countries in this category may have in Europe is likely to be in Brussels and/or Paris.

37. Large countries are the only ones where the pursuit of such a strategy makes any sense at all, as only if access is gained to a large market might the payoff ever outweigh the costs of foregoing liberalization. But these countries are precisely those where the strategy has the least chance of succeeding.

38. A similar argument applies to the option of pursuing unilateral domestic liberalization efforts but not binding these multilaterally. While this entails much lower direct costs - the primary one being that trading partners will perhaps offer less liberalization of their markets - the indirect costs may be substantial. The main advantage of binding is that it signals the "irreversibility" of liberalization to domestic agents. Once bound, costs will be incurred if the government attempts to re-impose discriminatory measures.

39. The EC accounts for about 40 percent of world trade in services - measured on a balance of payments basis - while the U.S. accounts for approximately 13 percent. If intra-EC trade flows are excluded, the figures become 29 percent and 17 percent, respectively.

40. The difference between the U.S. and EC offers is largely due to the fact that the EC has offered to make commitments on many transportation services, whereas the U.S. has not. There are 35 transportation services in the GNS list. If offers are evaluated excluding all transport activities, the resulting coverage ratios for the EC and the U.S. become virtually identical (around 50 per cent).

41. See also the seminal investigation by Sapir and Lutz (1981), later complemented by Sapir (1986).

42. It is beyond the scope of this paper to discuss the OECD codes at length. See Geiger (1990) for brief discussions of these and related instruments.

43. See United Nations and World Bank (1993).

44. However, as noted earlier, there are some disciplines on subsidies through the national treatment obligation that applies to scheduled service sectors.

45. For a general discussion of the possible impact of these factors on the political economy of multilateral liberalization of trade in services, see Hoekman (1992).

46. The design of the safeguards article is of crucial importance, as the criteria for invoking it will determine the extent to which it is likely to be invoked and the degree to which it may act more as a "loophole" than as a safeguard. See Hoekman (1993) for a discussion.

47. This assumes that the specific obligations of the GATS apply. To the extent that sectors are not scheduled, a country only has to avoid discriminating across *foreign* sources of supply.

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